

Presented By: David Broadbent-President & CEO

Introduction

On behalf of the Canadian Arctic Railway we would like to thank the panel for opportunity to make this verbal presentation. We offer a unique perspective on several of the issues under consideration by the panel. Our perspective is unique because in the short term we are planning to construct a new regional railway across the Yukon, connecting Alaska to the existing North American railway system. We are at the initial stages of our efforts, and are seeking private financing for our capital needs.

In the long run we are committed to developing an heavy haul rail network in the Canadian Arctic to facilitate the economic development of our rich northern resource base as well as provide an enhanced living standard with increased economic stability for our northern communities.

The Canadian Arctic Railway is a federally incorporated company with its head office in Port Coquitlam, British Columbia.

Presently work is being carried out for project definition to define a route through the Yukon with a connection to Alaska. This route would require the construction of approximately 1800kms of new line and could be completed in 3 to 5 years depending on the approval process. Once startup funding is in place economic and environmental overviews of the total project will have to be carried out so efforts can be focused on this initial route.

It is envisioned that the funding for the project would come primarily from the private sector with the opportunity for some sort of public/private partnership to deal with such issues as land use. By the completion of the project definition for the first route a formula for first nation involvement will have been finalized, environmental reviews will have been completed, construction permits will have been obtained, and construction would start.

The project definition will require the establishment of approximately a 100-person development team in Whitehorse, Yukon. Department heads have already been recruited to set scope and goals for the project definition phase. Recruiting for the full development team will commence upon obtaining initial startup funding.

Depending on the construction standard selected, railway lines in Arctic regions could be built for an average of between \$300,000 & \$400,000 per kilometre for developmental standard and between \$1,300,000 & \$1,900,000 per kilometre for mainline standard including bridges but not including any major tunnel work. The projected economic outlook will be the essential ingredient to set the initial standard to be used during construction

Not to be taken lightly, this would be a massive undertaking, with potential positive effects for the whole of the Canadian and American economies. It is envisioned at this stage to involve primarily private sector financing for new construction. We are pursuing involvement of the governments through potential issuance of land use rights from unused or undeveloped government crown lands as well as assistance facilitating the environmental and aboriginal approval process.

General Discussion:

The general perception even by many experienced railway people is that railways are too expensive to build. The truth is quite the opposite, railways can be built to many different standards just as roads can but on a much smaller footprint and railways have residual value in so called non-perishable materials such as rail, spikes, tieplates, etc. Another general perception is that railways require much more stable soils conditions to be built; again the truth is quite the opposite, railways can be constructed over terrain that would be too difficult or near impossible for any other form of ground transport to negotiate. Railways can negotiate permafrost year round better than any other known form of ground transport not only because a properly built grade insulates the frost from ever thawing but also the track section (including rail, ties, tieplates and ballast) creates a large heat sink to dissipate the heat generated by wheel/rail contact before it penetrates through to the subgrade. To put this all into perspective the Russians have been servicing the city of Murmansk (pop: city-700,000, region-1.3million) with primarily a rail link over hundreds of miles permafrost for over 85 years. Murmansk in latitude is slightly north of Tuktoyaktuk. Other major Russian Arctic cities such as Archangel have also been serviced primarily by rail for many decades.

Railways are essential to the Canadian economy, as a nation on a per capita basis we have more mileage of track and carry more tonnage by rail than any other nation on earth. The modern Canadian economy has been built over the past 115 years on the backbone of our superb rail network. Even so the rail network has only been developed in the southern third of Canada's landmass. We at Canadian Arctic Railway believe it is time to expand our rail network into the northern extremities of our landmass to bring economic stability to the region and allow the controlled development of our rich northern resource base in an environmentally acceptable fashion.

Canada has very effectively used its rail network for developmental purposes in past. We concur with the Government of the Yukon that the transport infrastructure should be part of the economic development of the Arctic regions and that there is a significant planning and support role to be played by the Federal Government.

Nearly every other major nation on earth except Canada and the United States are expanding not contracting their rail networks. This does not bode well in a global economy where we risk falling behind, considering transportation costs are

one of the key elements in global trade and Canada depends on exports for our very existence as a sovereign nation.

Presented By: Walter Young- Executive Vice President

The issues we would particularly like to comment on include:

- Access
 - Competition
 - Commercialism
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- Railway Development
- Future Vision + Policy

In order to set the stage for our comments, it is worthwhile to step back, and comment briefly on deregulation of transportation in both Canada and the United States.

Canadian Context

Since the implementation of the National Transportation Act of 1987 the following has been achieved in Canada.

1. The Canadian National Railway was privatized;
2. Federal Transport subsidy programs have been eliminated;
3. The combined national railways revenue per ton-mile has declined 35 percent;
4. Operating ratios have improved significantly, i.e. efficiency is improving steadily.

Clearly the deregulation and competitive atmosphere of the NTA 1987 and the CTA 1996 have succeeded in meeting the policy directives established by the Federal Government.

The U.S. Context

Rail regulatory policy, or rather deregulation, accruing with the Staggers act of 1980, was instrumental in the recovery of U.S. railroads from the financial difficulties of the 1970's.

We would ask the panel to consider the American railroad situation prior to the 70's when overly restrictive regulation was in place. The level of regulation clearly did not foster commercial market forces, competition, or financial health. In addition it would be instructive to exam the rate mechanisms that were in place at the time. Rates were established in broad rate groups such that, for example, a carload of lumber moving from Vancouver to Chicago would move at the same rate, regardless of the actual routing even when drastically different routings over various railways were possible.

We ask the panel to consider this in the face of calls from some quarters to impose rates based on average revenues per ton-mile, for similar commodities. This approach has not worked in the past and is not a recommended solution for the future.

Issues Review

Access

A review of the panel's Interim Report on Competitive Rail Access, and reading of the various position papers has heightened our awareness of the issue. We believe we can add a unique perspective in that Canadian Arctic Railway has not yet been constructed. Imagine you are meeting with potential financiers. They of course are looking for a return on investment that is sufficient to persuade them to invest in the railway in preference to other projects. You feel obliged to disclose that once constructed and operational, others may have the right to run over, force the movement of traffic, and demand service. All at Federally regulated rates. These rates may not provide the commercial returns necessary.

We would strongly suggest that in order to establish a new enterprise we must have the commercial freedom commensurate with the "risks" of the undertaking. Providing shippers with so-called competitive access to Federal railways will only erode the ability of these railways to maintain commercial viability.

Traditional running rights have always been possible between railways as a matter of negotiation. We believe that running rights, in various forms, should be the subject of direct discussion between operating railways. To the extent that a change in the current Act is necessary, we would encourage the panel to consider access a matter between railways, whether Federal, regional, or shortline.

Competition

The panel has heard a great deal about competition and must wrestle with the question of whether re-regulation or commercial freedom will achieve the desired result. Competition, in and of itself, will not ensure a viable transportation system. The panel has recognized the various forms of competition faced by railways, that is, intermodal, intramodal and market or source competition. As you examine the issues involved, we would urge you to take the perspective of a railway operator. Not only are you faced with the task of growing the top line i.e. revenue, you must build and maintain market share, and price all traffic in such a manner that you recover your operating costs as well as a return-on-investment sufficient to sustain the enterprise.

Pricing of traffic is an issue that receives a great deal of attention within railways. When a new project comes along that will generate revenue and new business, there is enormous pressure to competitively attract the business. Small changes in pricing can and do make the difference in the selection of the transportation provider. Therefore, those responsible for pricing decisions become acutely aware of competition, and this is all part and parcel of the negotiations between carriers and shippers. Pricing is a very sensitive matter,

and no executive wants to report to his Board of Directors that they lost a contract by a narrow margin. They lost not only the margin but also all of the revenue from the contract.

The forces of competition are present and working effectively under the current act. A continued commercial/negotiated approach to providing transportation will better serve Canada than increasingly detailed regulation.

Commercialism

Regulatory changes in Canada, privatization of CN, and elimination of transport subsidies, have made the transport industry more responsive to the marketplace.

We support the proposition that railways and rail freight users look to the marketplace, and not to government, "for signals as to how to conduct their commercial relations and move their products". (Interim Report)

Interswitching provisions within a 30 km radius are a reasonable proposition, notwithstanding the national roads may find the prescribed rates inadequate.

Running Rights

Current provisions permit Federally Regulated Railways to apply to the Agency where a commercial agreement cannot be negotiated. We would suggest that this provision be extended to regional and shortline railways, with a continue reliance on commercial negotiations between railways (with an appeal process based on Commercial Arbitration).

Competitive Line Rates

It would appear that since 1988 only 5 applications have been made for relief. Shippers see the "substantial commercial harm" (section 27), and "commercially fair and reasonable rates" (section 112) of the CTA 96 as an unnecessary barrier to Agency relief. We would suggest that these requirements are appropriate for deregulated enterprises, and are in essence a commercial threshold similar to that in place in the U.S.

Level of Service

Our only comment regarding the level of service provisions is that there is linkage between pricing and level of service. Shippers naturally want the "higher" levels of service at the "low" rates. These are matters for give and take in the negotiations between railways and shippers. The CTA requires that railways provide a common carrier obligation of "adequate and suitable accommodation",

yet also provides (section5) that competition and market forces are the prime agents in providing viable and effective transportation services.

The right to-a-rate

This provision has only been used once since 1988, and therefore should be eliminated.

Final-Offer-Arbitration

As a means of resolving disputes with carriers over service or rates, Canadian Arctic Railway supports an independent arbitration process. We would suggest that a commercial arbitration process would be more appropriate than final-offer-arbitration.

Confidential Contracts

The migration of a majority of rail traffic to movement under confidential contracts is testimony to their effectiveness in establishing commercial relations between shippers and carriers. We suggest confidentiality is paramount to maintaining competitiveness in all its forms and should remain a cornerstone of the Act.

Future Vision & Policies

Regarding a vision for the future we believe that a broader context is required, and that policy horizons should look beyond the current economic cycle. The encouragement of economic development and new enterprise in various regions of the country remains a worthwhile policy goal, along with sustainability.

Again, from the Canadian Arctic Railway perspective, we find the current act does very little to encourage new railway enterprises. The act seems to provide solely for the establishment of so called shortline railways to operate abandoned branch lines, hardly the ingredients for a viable short or regional line. The lack of viability is evidenced in recent years by the takeover of shortlines by larger conglomerates such as Omnitrax and Rail America. We suggest that if Canada truly wants to develop a vibrant shortline/regional railway industry then a number of steps need to be taken that would encourage a flow of investment and capital to these enterprises.

Consider for the moment a number of financial incentives that could be utilized to support the development of new or existing railway initiatives. These might include flow-through share issues, which provide tax benefits for shareholders for a number of years, as in the oil and gas industry. Other mechanisms could be examined for potential application to railways or other modes, for example; railway development bonds, improved capital cost

provisions, fuel tax relief based on environmental effectiveness, or a tax regime similar to exploration and depletion provisions in the natural resource industries.

Such measures would contribute to the sustainability of transportation in Canada and recognize that major enterprises move through various stages from development to maturity. In particular, a developing and vital shortline/regional railway system will contribute greatly to the economy of the country and in combination with the National Railways will ensure transportation systems that meet regional, national, and international requirements.

Summary Comments

We thank the panel for the opportunity to present our comments and trust they have been helpful. We would summarize as follows:

1. Canada's transportation policy should continue to hold out commercial freedom as an essential ingredient.
2. The transport act, as it pertains to railways, should maintain the interswitching and confidential contracts provisions, while opening up negotiated running rights between short line, regional and national railways. Commercial arbitration should be substituted for final-offer-arbitration.
3. The development of shortline and regional railways should be encouraged through tax related, time limited, incentives.
4. Canada's vision for a viable transportation policy should extend far beyond the horizon of the current business or economic cycle.